



David Campbell, *Broadridge*

Sharpening the axe: 3 steps broker-dealers should take now to prepare for CAT

Given the enormous complexity of rewriting how the U.S. equities and options markets will report trade- and order-related events to the Consolidated Audit Trail (CAT), the latest proposal of a phased implementation approach is a welcome change for broker-dealers. Under the new Master Plan, the U.S. cash equities markets can expect to start industry testing order events in August 2019. This will give industry members more time to increase their capability to implement CAT while reducing risk for all stakeholders throughout the process, particularly with the implementation of new requirements such as options reporting.

However, the target dates still seem tight and pending decisions remain unclear, giving pause to firms amidst a host of ongoing proposed changes. Broker-Dealers who are subject to the first go-live phase of CAT implementation – targeted for November 15, 2019 with a conformance period running to February 2020 and the iterations following it – will need to figure out how they will manage these uncertainties and associated risks until they receive more concrete guidance on the final phasing, decision gates and plan tracking.

Mitigating operational and regulatory risks of implementing CAT is all about preparation. Abraham Lincoln once said, “Give me six hours to chop down a tree and I will spend the first four sharpening the axe.” November 2019 may seem like a long way off, but it truly is not when considering an industry testing window opening in less than 12 months. Here are three essential steps broker-dealers can take now to start sharpening their axes.

1. FOCUS ON THE TESTING WINDOW

Even with the full CAT rollout pushed out to November 2022, the one milestone date that remains consistent is the start date of Phase2A industry testing in August 2019 – about one year from now – and completion by November 2019 to meet the first go-live that month.

What does this mean for individual broker-dealers who must prepare for this test window? Regardless of how realistic the Phase2A testing timeframes are for meeting the go-live slated for just six months later, firms can use this one seemingly unwavering set of target dates to their advantage by maximizing their own testing time window.

A crucial component to industry testing is the firm’s ability to appropriately implement their reporting solution and conduct internal testing, for which industry experts recommend at least six months to complete – ideally starting by February 2019. But what can firms do now to get ready?

2. ASK THE RIGHT QUESTIONS

Firms can start by asking the right questions and getting the right answers. Quite often, engaging with outsourcing or technology providers is the best place to begin validating what you already know and uncovering what you do not know. Here are four important things to explore.

First, determine whether or not their provider is helping to solve the CAT challenge for multiple firms in an industrialized or mutualized way, such as an industry utility or shared service. Such a service would allow firms to concentrate on getting data to the provider and applying their unique interpretations of compliance to implement.

Second, find out how much influence your firm would have on the design of the provider's CAT solutions. Providers who are willing to collaborate with industry members will ensure firms get the best tailored, rather than one-size-fits-all, solutions.

Third, understand where the provider stands in its solution development cycle. Those who are further down the product maturity lifecycle will help reduce risk for firms and be in a better position to help optimize operations as CAT evolves.

Fourth, determine the amount of time and effort the provider may require of your internal teams. For example:

- Can the provider evaluate data coming in from your systems, and then enrich it using rules prior to submission? You can minimize the effort of retrofitting upstream systems to achieve CAT compliance. Otherwise your internal team will have to take this on.
- Does their tool bring disparate sources of data together, and enable you to tie pre- and post-submission errors back to the source system?
- How much heavy lifting will the provider require you to do to get the data into the right model before it reaches their CAT reporting tool?
- Will the provider offer you tools to minimize disruption or impact to your existing processes?

3. EXPAND YOUR KNOWLEDGE

Now that the summer is over, the industry has more clarity on decision gates and target deliverable dates. Regardless of what

happens next, firms can take several important yet simple steps now to reduce their risk by keeping pace with progress and remaining ready for any ongoing changes to the master plan.

First, stay informed by becoming and remaining actively engaged with industry groups and operating committees focused on CAT. Monitor news, letters, comments and updates as much as possible. Second, start cataloguing your internal systems and the scope of events that will likely be impacted by CAT. And third, increase your understanding of the landscape of providers that could potentially help you meet CAT mandates. Begin a dialogue with those who are building industry-focused solutions and can potentially help your firm with onboarding.

SHARPENING THE AXE

Benjamin Franklin once said, "By failing to prepare, you are preparing to fail." The message is clear: Start preparing now. As a broker-dealer, your ultimate goal is to structure your operations properly to handle increases in volumes and changes in CAT timelines. Any industry testing phases must be first tested internally. But if your operations are not fully assessed, optimized and prepared, failure is likely not far behind.

The key is to understand what your firm should manage in-house and what it should not, and what it actually needs for CAT. Solution providers can help in several areas such as optimizing workflows to minimize human intervention – that is, automating as much as possible before submitting reports to the CAT repository – as well as enhancing data accuracy and workflows to minimize the amount of people effort, and ensuring smooth and successful CAT onboarding.

Because most firms will not be able to handle all aspects of CAT on their own, choosing the right provider will be crucial. Take the time to sharpen your axe by increasing your knowledge and engagement with people who have answers to your questions, and staying laser focused on your testing window. This way, you will have greater control over the risk, complexity and impact of your CAT implementation.

Broadridge, a global fintech leader with over \$4 billion in annual revenue listed on the S&P 500 index, provides communications, technology, data and analytics. We help drive business transformation for our clients with solutions for enriching client engagement, navigating risk, optimizing efficiency and generating revenue growth.

broadridge.com



© 2018 Broadridge Financial Solutions, Inc., Broadridge and the Broadridge logo are registered trademarks of Broadridge Financial Solutions, Inc.

CM_00034_AR_18

Ready for Next

Communications
Technology
Data and Analytics



Broadridge®